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FOR THE FUTURE

A Publication of Koll Development Company (KDC)

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The Task of Hercules
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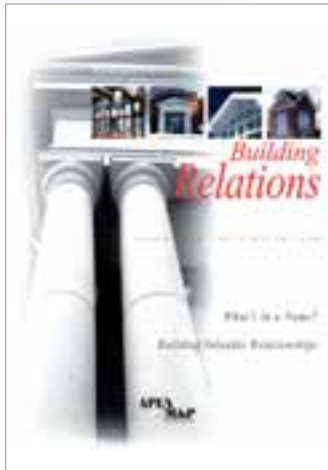
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I am pleased to present you with the first issue of KDC's *Developing for the Future!* We created this publication to inform our clients, friends, and associates of current trends and look into the future of commercial and corporate real estate by sharing the expertise of our KDC leadership team. *Developing for the Future* will be distributed semi-annually and will provide readers with interesting information about real estate development, acquisitions, and asset management.

At KDC, our business is focused on developing, building, acquiring, and managing commercial real estate nationwide. Our goal is to constantly create **VALUE** for our clients on every project and work diligently to exceed their expectations every step of the way.

We want to thank everyone who contributed to this publication and we encourage anyone interested in submitting an article in the future to contact us for more information.

I would like to extend our thanks to the invited consultants and contractors who helped support this effort with their advertisements. We could not have produced this piece without your support and we appreciate your involvement. It is my promise that we will consistently deliver accurate and enlightening articles in each and every issue.

I hope that you enjoy our first installment of *Developing for the Future*.

A handwritten signature in black ink that reads "Steve Van Amburgh". The signature is stylized and cursive.

Steve Van Amburgh
Chief Executive Officer
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"Top Services Provider in Europe"

Property Week, May 2004

"Most Powerful Brokerage Firm"

Commercial Property News, June 2004

"Most Frequent Dealmaker"

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PLANNING. TO ACHIEVE



When Koll Development Company (KDC) was awarded the marketing and management of the CentrePort master plan community in 1995, the Dallas-Fort Worth commercial real estate market was still reeling from the 1980s Texas real estate crash.

by Bill Guthrey

Senior Vice President, Marketing

Koll Development Company (KDC)





Almost all segments of the market were overbuilt and most developers were taking timid steps. Few were willing to think big in terms of redefining what they could offer. KDC, on the other hand, preferred to embrace a larger vision for the development, investing in what it saw as the market's new direction.

The idea of master-planning has been around for decades, but few developers truly embraced the concept or its potential. KDC saw a tremendous opportunity with CentrePort, and pursued the development with a passion.

The 1,300-acre CentrePort is located at the southern entrance to Dallas-Fort Worth International Airport. DFW Airport has transformed the North Texas region since opening in 1974. As the world's third busiest airport, DFW is the major hub for American Airlines. In fact, American chose the development for its corporate headquarters shortly after CentrePort was built. Like American Airlines, proximity to DFW was the major draw for many of the first companies that

located in the development, as was the easy commute from both Dallas and Fort Worth.

In addition to location, the mixed-use campus was designed to effortlessly blend hotel, light industrial, office, retail and residential users in a logical and pleasing manner. Yet, in the midst of a depressed market, it would have been easy for KDC and the developer to ignore the original master plan and concentrate solely on developing the property. They chose to stay on course.

A true master-plan encompasses more than just a blueprint and a few ideas – it involves a holistic vision that imparts control and flexibility at once. While seemingly counter-intuitive and paradoxical, the most important key to success in a master-planned project is flexibility. The developer/project manager has to serve as the quarterback, guiding the game quarter-by-quarter, yet always mindful not to sacrifice long-term game strategy. KDC believes that CentrePort stands as evidence of what is possible.

The idea of master-planning has been around for decades, but few developers truly embraced the concept or its potential. KDC saw a tremendous opportunity with CentrePort, and pursued the development with a passion.



Photography by Glenn Patterson, Skycam



The Campus at CentrePort offers 300 acres of prime office/campus land for development. The “@” symbol mowed in the grass grabs attention from the nearly 2,000 flights daily at DFW International Airport.

As the market changed, KDC and Corgan Architects, as the master planning architect, adjusted CentrePort to meet new demands and opportunities that arose, yet kept the original plan intact. Today, CentrePort serves as a regional hub for well known brands, including Bank One, Southwestern Bell, Uniden, Mercedes-Benz, Keebler and Whirlpool.

AEW Capital Management is the advisor to the owner of the land. AEW and KDC coordinate development and land sales at the park. “This development is truly remarkable in the sense of expansiveness and functionality,” said Dan Bradley, AEW’s portfolio manager. “An all encompassing development such as this is truly challenging yet offers a great opportunity to create and “add-value” on a project-by-project basis.”

In addition to attracting Fortune 500 companies, CentrePort attracted the DFW stop for the Trinity Railway Express (TRE) regional commuter rail line. Although not originally part of the master plan, the TRE has transformed CentrePort

into a “live-work-play” community and supercharged the viability of all product types. The new rail line, which opened in 1996, serves suburban workers who commute to the central business districts of Dallas and Fort Worth, as well as employees of CentrePort tenants. CentrePort is now known as a Transit Oriented Development (TOD), a “walkable community” centered on a high quality train system.

Complementing the public transit aspect is the dedication to the pedestrian-friendly design, which was a core concept in the original master plan. The “green” aspect is more than a selling point—it is a community virtue. Because CentrePort offers on-site retail amenities ranging from dry cleaning, restaurants and hotels to daycare and fitness centers, employees spend much less time in their cars. They can do their work, jog during lunch, take care of errands and walk to the nearby TRE station for their daily commute.



In staying on course, KDC has helped create a vibrant community for employers and employees. When choosing an office location, companies have five basic decision points on their matrix: convenience and quality of life for workers, cost, flexible space, security and efficiency of consolidation. The CentrePort master plan includes all of these values, allowing for market-demand changes, but protected in image by strong CCRs, project management and a firm vision.

That is what sticking to a plan means, and why some master plans – like CentrePort – fit together perfectly. ■

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THE TIME IS RIGHT FOR **SALE** LEASEBACKS

Sale-leasebacks are a tried and true financing technique for companies that don't want to tie up their resources in bricks and mortar. Right now is the ideal time for corporate real estate directors and CFO's to examine this financing tool in today's low cost of capital environment.

by William L. Rafkin
Senior Vice President, Koll Development Company (KDC)

The goal of a sale-leaseback is to unlock a corporate owner's equity in their real estate through a sale, but allow it to maintain control through a long-term lease. In a well written lease, a company can virtually control the real estate through its useful life. The foundation of the transaction is the owner's (and soon to be tenant's) financial creditworthiness; meaning, the stronger the credit, the lower the cap rate. In a sale-leaseback, value is determined by the structure, term, and creditworthiness of the lease, with the underlying real estate playing a subordinate role.

In a typical sale-leaseback, the lease term is equal to, or in excess of 10 years. However, it is not uncommon to see 20 year lease terms. The longer the term of the lease, the lower the cap rate. Depending upon the length of the lease and certain financial measurements, a 20 year lease can still be regarded as an "Operating Lease", which is an off balance sheet lease. A "Capital Lease", on the other hand, must appear on a company's balance sheet as a liability.

The Financial Accounting Standards Board (FASB) determines the classification of a lease depending on its features. An Operating Lease cannot transfer ownership of the property to the tenant at the end of the lease term, cannot have a bargain purchase option, cannot have a term in excess of 75% of the property's estimated economic life, and cannot have base rent payments that aggregate over 90% of the property's fair market value when discounted at the tenant's incremental borrowing rate. The last provision is the one which typically restricts Operating Leases to terms of 20 years or less.

A tenant's operating responsibilities in the lease play a big role as a true net lease provides the best price to the seller (and future tenant). A true net lease also transfers obligations and costs of maintenance and repairs to the tenant, leaving the landlord with little operational risk. These terms are no different from what the tenant faced earlier as owner. In conventional sale leasebacks, a true net lease is practically a given.

Many corporate CFO's are against sale leasebacks for the following reasons: one, the property is "mission critical" to the company and gets modified frequently to accommodate new uses; two, the company has no need for cash and real estate is a good store of value; and three, it is cheaper for the company to own than to lease the property.

Of these objections, the first and second are most reasonable. Some companies own "mission critical" facilities for purposes of control. A good example is a research lab that is frequently refreshed. The costs of the land and envelope of the building typically pale in comparison to the cost of the furnishings, fixture, and equipment housed inside. The need for flexibility drives that company's decision to own mission critical real estate. Additionally, some fortunate companies have been stockpiling cash and using that windfall to build state-of-the-art corporate headquarters. They justify the investment as a good store of value, and believe they can always do



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a “sale-leaseback” in the future to unlock invested cash.

The third objection is a little foggier. Today, a company can borrow very cheaply to own real estate. However, that company is using its borrowing capacity to own real estate, rather than to invest in more productive assets. Wouldn't a company be better off dedicating its resources to finding new life-saving drugs or to designing more efficient machines than to purchasing real estate?

In today's low interest rate environment, some companies compare a cap rate to their short-term cost of borrowing. Although quick and dirty, that analysis leads to erroneous conclusions. No company can borrow indefinitely on their short-term credit lines; not even the U.S. government. Instead, the average cap rate on a sale leaseback should be compared to a company's "hurdle rate," which is a more accurate metric. If the average cap rate is below a company's hurdle rate, the company should lease

the real estate and invest its capital elsewhere. It is the hurdle rate, instead of the short-term borrowing rate, that should be used when evaluating the merits of a sale leaseback.

Companies use hurdle rates in allocating their scarce capital to competing projects. (A hurdle rate is an all-in rate of return on investment, and related to a company's blended cost of equity and debt capital.) Hurdle rates typically range from 8 1/2% to 16%. Today, a company's cost of leasing is well below their hurdle rate.

KDC has recently employed variations on the sale leaseback theme. For example, a company need not lease back all the space it is selling, but rather write a lease which allows it to shrink in some of the space. KDC could then redevelop the tendered space for re-lease to third-party tenants. Additionally, a company could sell a large package of properties to KDC, some of which will be leased on a long-term basis, some on a temporary basis, and the remainder

not at all. It is a good way for a company to clean up its balance sheet, rationalize its owned real estate portfolio, and dispose of some unwanted real estate. "Sale leasebacks have become so popular and commonplace that both companies and real estate investors have become more and more comfortable taking a creative approach in structuring these deals," says Kevin Kelley, a partner with Gardere Wynne Sewell LLP, a law firm that has represented KDC in several sale leaseback transactions.

Interest rates are near their historical lows and investors are paying high prices (low cap rates) for real estate. If a company is evaluating a sale leaseback, now is the time to act. Although no one has an accurate crystal ball, many economists are predicting higher interest rates for 2005, with cap rates to shortly follow. With such a great opportunity, now is not the time to squander. ■

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For the world's largest distributor of professional beauty supplies – a company that generates more annual sales than internationally-known brands like Revlon – their old corporate headquarters was no beauty. Sally Beauty Company's main offices in Denton, Texas were dated, worn out and ultimately inefficient. KDC was responsible for overseeing this corporate headquarters' "extreme makeover."





"Their headquarters was a converted warehouse in Denton," said David Flatt, vice president/director of interiors of PageSutherlandPage. "And we're not talking about the cool, converted type of urban warehouse designs you see in movies or magazine ads."

The office/warehouse location on Morse Street was the beauty supply giant's second home since its founding and relocation from New Orleans. As the company grew in size and evolved, space was added or changed as needed.

Each addition made sense, but over time the compounded changes created a complex environment where information took the longest route,

slowing decisions and answers. And taking into account that Sally Beauty considers its corporate headquarters less an "HQ" and more of a "customer support center" – since their field sales teams are "customers" – the problem directly affected the bottom-line and potential growth.

Sally Beauty Company required the full scope of what KDC provides. From site selection and design, to space planning and construction management, the beauty supply company needed an extreme makeover. The national retailer wanted a home that would maximize efficiency, productivity, and employee morale. They also wanted a highly-visible site, at just the right location.

And they were willing to commit the capital to make it happen.

"Our specialty is build-to-suit development, and we take that term very seriously," said Don Mills, senior vice president of KDC. "This new headquarters for Sally Beauty was necessary to suit all of their needs going forward. It would provide the needed support for all the retail centers around the country."

KDC analyzed and performed due diligence on a number of sites before they found the ideal location. The site was 27 acres of elevated, undeveloped land set back in a grove of trees from Interstate 35 in southern Denton. The design team – led by Page



The national retailer wanted a home that would maximize efficiency, productivity, and employee morale.



“I got goose-bumps when I first drove up to it. It was a proud day for everyone at Sally Beauty.”

– Michael Renzulli, president and CEO of Sally Beauty



Southerland Page – went to work on creating a masterpiece that would represent Sally Beauty's image to clients, stores and employees.

The development team featured industry leaders Alliance Geotechnical Group, Kimley-Horn & Associates, McCarthy Building Cos., Pacific Builders and TD Industries.

"This is a very high-quality building – from the structure and mechanical system, to the exterior. This company has climbed its way to the top and is developing the kind of headquarters that will last for many years to come,"

"When the new facility welcomed the 500 employees for the initial open house, they were awed by their new home."

Michael McWay, president of McCarthy, said. Incorporated into the site design were seven full acres of land left untouched, preserving the green space. Inside, form followed function, maximizing information and data flow. On top of all other business considerations, the facility was designed and finished-out to be a beauty in the eye of all beholders.

After 20 months, the new home for Sally Beauty was ready for occupancy in December, 2004.

"I got goose-bumps when I first drove up to it. It was a proud day for everyone at Sally Beauty," said Michael Renzulli, president and CEO of Sally Beauty, which operates more than 3,000 stores in the U.S., Puerto Rico, United Kingdom, Canada, Germany, Mexico and Japan.

Mr. Renzulli wasn't alone.

"When the new facility welcomed the 500 employees for the initial open house, they were awed by their new home," Mills said. "You could see it on their faces."

The 200,000-square-foot corporate campus features the latest in high-tech infrastructure, dual-feed power, a serene tree preserve, and an on-site dining facility that rivals area restaurants.

The employees realized this was a place where they could be happy and more productive than ever, and it was certain that their new "corporate home" showed the value the company placed on them. ■

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The Task of **HERCULES**

A CLIENT NEEDS THE WORLD MOVED. AND THEY NEED IT YESTERDAY.

Everyone knows that to accomplish a near-impossible task requires a "Herculean effort," so it was no surprise that the Citigroup project was code-named "Hercules."

What was this challenge? Three buildings; in three different states; a total of 531,000 square-feet; costing approximately \$100 million; and, the entire project had to be built simultaneously. While not a typical project for KDC, what made it worthy of the legendary Greek hero was the timetable: just seven months from start to finish.

While Project Hercules was one of the most challenging projects KDC has undertaken to date, it encompassed the full scope of what KDC offers its clients. It was a complete turnkey development – from land acquisition through construction and tenant

improvements, all the way to the on-time and on-budget completion of three high-tech build-to-suit facilities spread across the continental United States.

"Our Citigroup project was driven by their technological needs and made possible by the technological processes we have in place," said Mike Rosamond, senior vice president of construction for KDC. "A lot of our strengths came into play in making this project come together, and it is safe to say that what facilitated the whole of this was our ability to deliver and manage data."

"These three facilities are highly technical, mission-critical operations and secure call centers for Citigroup. Part of what drove the timetable was that they wanted to roll out a new internal software system that would

encompass their existing sites, as well as the three new ones."

The buildings, financed through Key Bank, in Boise, ID, Louisville, KY, and Greensboro, NC would ultimately house 2,000 employees each and involve millions of dollars in high-tech cabling alone. "The Citigroup project was a huge economic boost to the area and the momentum will reverberate for years to come," said Andrew Burke, president of the Greensboro Economic Development Partnership. "We were thrilled to work with all of the contributors that played a role in bringing this project to fruition."

NEED FOR SPEED

From the very beginning – before Citigroup had even awarded the development contract in late February





2004 the KDC team was taking steps to increase both quality control oversight, as well as speed of delivery. KDC had selected materials, purchased the design process, and even made the risky decision to begin construction before having closed on the three land purchases. (KDC was vertical by the time of closing in April.)

"We knew we could do this – because we have the relationships and the resources – but we also knew that every step had to be taken with the client's unusual needs dialed-in, because each step affected every subsequent step," said Scott Ozymy, senior vice president for KDC.

KDC was working so far ahead that they held the first design review session on the same day they were awarded the project. To ease the process in exchanging information and updating directives, KDC set up a website among their team members, including Clayco Construction Co., Forum Studios, Munsch Hardt Kopf & Harr and Greensboro Economic Development Partnership. The pace appeared breakneck, but quality control was a priority.

The process was one of the most rapid and well organized that I've been involved with," said Steve Rigby of CBRE. "I was amazed that KDC was able to pull all the players together in such a high pressure situation, while coordinating hundreds of details at the same time."

"This project was under an extremely tight timeframe and budget," said Bob Clark, chief executive officer of Clayco Design/Build. "KDC kept the channels of communication open, which allowed each team member to step-up the pace and stay on schedule."

"Data delivery is the very reason for these three centers to exist, so data cabling and power line testing was imperative. It was done in an environment unlike any we've ever seen before. Just four months into construction – while the superstructure itself was still being put in place for parts of the facility, we had the computer equipment room (CER) up and running," Rosamond said. "It was like a movie set... inside the CER everything was complete, and then you'd step outside and there were walls that hadn't been constructed."

Delivery of all the sites for occupancy came in under the wire. In October 2004, Citigroup's newest high-tech facilities were humming.

"It's because of experience and our position as the pre-eminent build-to-suit developer we were able to pull off what I don't think anyone else could," Ozymy said. "We don't ever intend on doing one project for a client. We intend on doing our first project for a client, which is just the beginning. Here, I think we proved that there's no test a client can offer that we cannot meet." ■

While Project Hercules was one of the most challenging projects KDC has undertaken to date, it encompassed the full scope of what KDC offers its clients.



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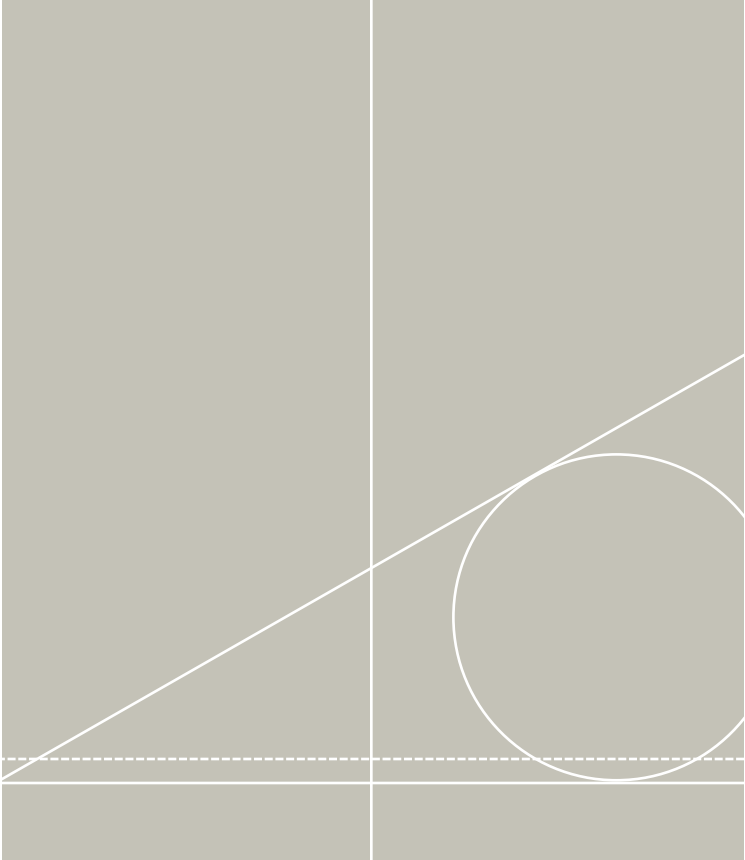
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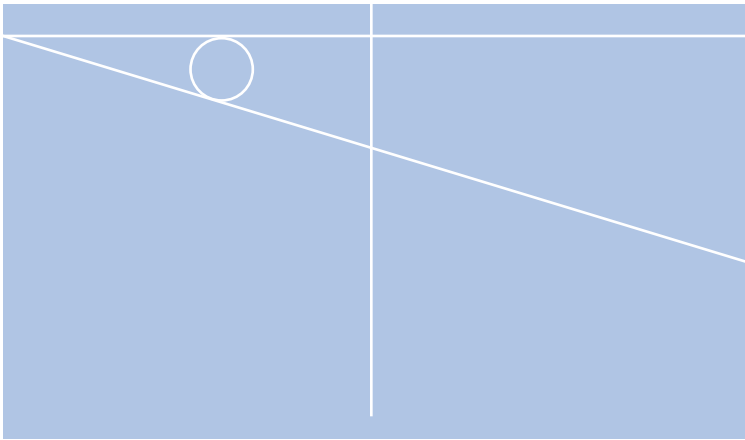


DEVELOPMENT

With Class

Competition is increasing in the world of academia and we're not speaking of test scores and accreditation. It now involves facilities as much as student grades. At primary and secondary school levels, evolving concepts in the education model and new technologies demand a much different approach to educational facility development beyond the traditional classroom.

by [Tobin C. Grove](#)
[President, Koll Development Company \(KDC\)](#)





Just as we have seen commercial user's demands evolve to seek more inclusive, mixed-use, integrated, lifestyle friendly workplaces, the needs of the educational world are following close at all levels. Today's principles for modern education facilities have an underlying premise that all learning environments should be knowledge-focused, developmentally-appropriate, safe, comfortable, accessible, flexible and equitable – in addition to being cost-effective.

The ultimate goal is to optimize the school and its surrounding community as an effective setting for growth and learning. Further, there's a growing demand for colleges to retain students longer as they work on advanced or technology-related degrees. Students want more "urbanized" living environments, much like the development movement in the 1990s towards "urban villages" for commercial users.

INSTRUCTIONALLY HIGH PERFORMANCE LEARNING SPACES

Koll Development Company (KDC) is focused on providing educational institutions with the same market-leading real estate development resources it provides commercial clients. This ensures that academia receives the same level of commitment to client satisfaction, on-time delivery, and below-budget management.

Many educational institutions are balance-sheet rich and cash poor. They have explosive growth needs, and unique financial challenges based on their public

status. State budgets vary in reliability and the importance of maintaining bond ratings can't be stressed enough.

KDC is focused on providing the processes to fulfill educational institution's capital construction and facility needs, while leveraging our experience as the leader in build-to-suit development and investment. From financing to design and delivery, the same expertise that has garnered more than \$1.2 billion in new development in just the past five years is being refined to the unique needs of education clients. KDC is not just focusing on residential halls or sports facilities – it is positioned to provide complete education facilities development and project management.

KDC is currently working to provide aesthetically-integrated, custom learning centers and highly personalized college facilities, based on specific institutional needs. Examples range from high-tech classrooms and fitness/wellness centers for students, to on-campus hotels and conference centers. These extensive lifestyle amenities will make the universities more appealing to their students while helping to better prepare them for the future.

KDC has assumed a leadership position in the tailored development of commercial, office, mixed-use, retail and light industrial properties – from project initiation and financing, to project management and completion. That successful experience and energy will bring new focus to our development of educational facilities. ■



KDC is currently working to provide aesthetically-integrated, custom learning centers and highly personalized college facilities, based on specific institutional needs.



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TAKING THE LEED:

IT /S EASY BEING **GREEN**

"When the idea of building '**green**' first came to our attention a decade ago, the initial reaction in the industry was not exactly positive," said Murray Newton, executive vice president for Koll Development Company (KDC). "A lot of developers thought 'green' might be thought of as buildings with unproven power reliability and expensive building systems."



EPA Regional Headquarters developed by KDC.

Photography by Glenn Patterson, Skycam

Clearly, the truly "green" building of the future is fundamentally different from the structures of the past. But, it is successful today.

LEED (Leadership in Energy and Environmental Design) is a certification awarded by the U.S. Green Building Council to projects that meet a strict checklist of design and construction requirements against environmental costs and impacts. One of the cornerstones of the LEED program is the use of recycled and environmentally-neutral materials. This means the project site and products are chosen for their low impact on the environment, such as pollution, as well as limited use of scarce resources and energy during production and transit. LEED awards points for optimizing indoor air quality and using regionally-available construction materials.

"KDC took a different approach," said Newton. "We saw from the genesis of the idea that initial investments in emerging green technologies could have significant benefits for our clients. So, a decade ago, we embraced LEED principles. Today, the majority of the development world is embracing it as well."



Ficus trees oxygenate the air.



Green buildings are developed through the use of environmentally-friendly refrigerants and energy efficient HVAC systems.



KDC undertook such a project early on for an organization that knows green issues better than most – the U.S. Environmental Protection Agency – for their office in Kansas City, Kansas.

"Kansas City was anxious to revitalize this area and KDC developed a truly landmark addition to our downtown. Awarded the contract based upon a design competition, KDC demonstrated that environmentally-friendly, energy-efficient, highly-functional buildings can also be cost-effective and attractive workplaces," said Kansas City Mayor Carol Marinovich. "As a testimony, the EPA's Kansas City headquarters won the Presidential Closing the Circle Award, a prestigious award for 'Green Building' design."

High Performance

There is no one single distinctive characteristic that differentiates a green building from a standard building. But imagine the following:

Underneath the entry plaza, water circulates through a grid of 90 wells and loops in a single system. Each well reaches to a depth of 300 feet, where the earth's temperature is a constant 55 degrees Fahrenheit.

The building's storm drainage system filters and slows water runoff, using a 30,000 cubic foot detention tank installed under the parking lot at the rear of the building. There, storm water is filtered and run through an oil separator, then released at the same rate as when

the land was wooded. Extra water is saved for non-potable uses within the building.

Electronic faucets and waterless urinals designed around gravity and chemical seals are used instead of traditional fixtures, thus saving tens of thousands of gallons of water.

Office spaces have large, insulated windows to admit natural light and sensors that automatically switch off electric lights when sufficient daylight is present. The natural lighting not only reduces electricity use but also has been shown to improve work performance and morale.

More Green More Back

The list of environmentally-sensitive and beneficial features is long and growing. But as Newton and KDC discovered early on, the benefits to their clients was even greater.

"It has a positive effect on employee productivity, health care costs, absenteeism and morale," Newton said. "And that impacts the bottom line. The market demands high-performance companies and high-performance people – necessities which multiply when you have a high-performance building."

The long-term benefits are plentiful. The introduction of more natural light reduces the cost of lighting. Building orientation and increased insulation

values reduces heating/cooling equipment size and power required to run the systems. The elimination of chemical pollution from building materials and second-hand tobacco smoke benefits employee health, reduces sick time and increases productivity. Construction waste management reduces tipping fees. Finally, green buildings are less expensive to operate, because they can impart a substantial savings in energy costs.

And embracing environmentally-sound design and construction can also affect image.

"It's a very high-profile commitment to good corporate citizenship that is well received by the public. It can alter the image of a company that may have a less-than-stellar image in regards to environmental considerations," Newton said. "It's also increasingly accepted in the corporate community and among development regulators who desire such green projects in their communities."

"Clients want this. Communities want this. Brokers and builders increasingly want this," Newton said. "This process will continue to evolve with technology and the economy of scale of increasing demand. The buildings of tomorrow – what users and the public as a whole demand – will be significantly different from what we have today.

"We made an early commitment to this and want to continue this obligation as an environmentally-responsible developer." ■



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Creatively Serving



Quickly assembling the necessary resources and capabilities to meet client needs is the hallmark of Koll Development Company (KDC). Once the final project is completed and all parties are happy with the results, KDC considers its efforts a success.

A perfect example of KDC meeting client needs is a recent project for a division of Baxter Healthcare Corporation in Bloomington, Indiana. In early autumn 2003, KDC received a call from Michael Burns, Principal in the Staubach Company's Chicago office, who was having a client meeting with Baxter. He explained how Baxter had an immediate expansion need and were weighing three different options: a ground-up build-to-suit; a modification of an existing lease space; or an acquisition and expansion of an empty building. After reviewing the options with KDC, it was clear that the last one was most feasible. The challenge, however, was in the details. At what price could KDC buy the empty building? How much would it cost to expand and adapt to the needs of Baxter? How long would it take?

by William L. Rafkin

Senior Vice President, Koll Development Company (KDC)

Baxter Healthcare

A few days after Burns’s call, a team from KDC arrived in Bloomington to begin the process. KDC decided to buy an empty 90,500 square foot call center and to expand it by 35,000 square feet for sophisticated production, warehouse, and office use. The challenge, however, was that construction had to be completed in nine months and on a tight budget. That same day, while standing in the vacant call center, a team from KDC and Staubach negotiated a deal with the seller’s agent. The resulting price was a substantial discount to replacement cost, and the building housed many amenities that Baxter needed, such as furniture, fixtures, and cafeteria equipment.

Although plans for the rehabilitation evolved over time, financial arrangements needed to be nailed down immediately. Baxter wanted to own the facility eventually, but needed time for capital budgeting. Since

construction costs would not be finalized until well into rehabilitation, structuring the lease was a bit of a challenge. Baxter and KDC quickly came to terms on a long-term lease, with a unilateral right for Baxter to purchase the building at a set price at a set time. In addition, KDC granted Baxter a share of future profits if it ever sold the building to a third party, if by chance Baxter passed on its purchase option. These creative terms met Baxter’s financial needs, yet gave both parties enough certainty to get the project capitalized and underway.

KDC worked with Compass Bank to provide an acquisition and construction loan, which featured a mini-perm option that allowed KDC to finance the finished project until Baxter exercised its purchase option. Due to Compass’ speedy response, KDC purchased the empty building 60 days after its first visit to Bloomington.

“Due to our good relationship and confidence in KDC, and the stellar creditworthiness of Baxter Healthcare, we were able to respond quickly with a well conceived structured financing,” said John Reichenbach, Executive Vice President of Compass Bank. “We were very pleased with the results.”

A 35,000 square foot, air-conditioned warehouse was added to the building and the interior and exteriors were completely rehabilitated. Additionally, because jobs were added to the local economy, Baxter and KDC worked with Monroe County to obtain property tax incentives that rewarded Baxter for its long-term commitment to the area.

KDC assembled a great team. Weddle Brothers was hired as the general contractor, and Oddle, McGuire & Shook was hired as the architect and engineer. All parties met frequently on-site to ensure a rapid and successful completion. Hard and soft development



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costs were monitored daily, and KDC exercised its skills in value engineering every aspect of the redevelopment.

As construction was underway, Baxter further modified its interior finish and significant improvements to the building were implemented. These improvements, however, required additional funding. At the point of nearing completion, both parties met to revisit the financial terms of the lease. Although KDC desired to own the building for a few years, Baxter’s needs prevailed and they relinquished their purchase option and asked that KDC put the building up for sale.

KDC quickly found a buyer for the property, Capital Lease Funding, a newly-formed NYSE-traded REIT. CapLease did a magnificent job reviewing the building, lease, and market, and came quickly to terms with KDC. At the time of Baxter’s occupancy and lease commencement in late 2004,

CapLease closed on its purchase. Baxter’s share of the profits from the sale was enough to pay for the costs of additional interior improvements, which was the reason for the sale.

At the end of the day, all parties were pleased. Baxter had a state-of-the-art production, warehouse, and office facility meeting its long-term needs at a rental rate that was below market and also below the cost of a typical ground-up, build-to-suit building. CapLease made a solid, long-term investment with a blue-chip, superb tenant. KDC accomplished its tasks on time and on-budget, made a nice return on its invested capital, and forged closer relationships with talented individuals from Baxter, Staubach, Compass Bank, and Capital Lease Funding. From KDC’s perspective, the strength of those relationships is the true measure of success. ■

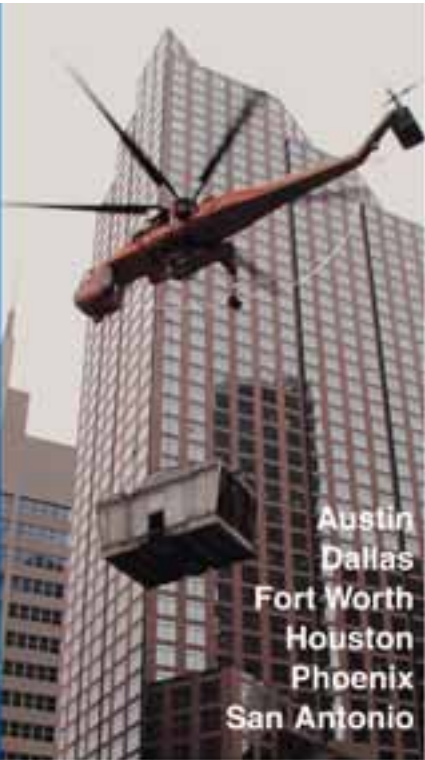
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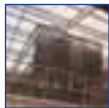
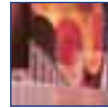
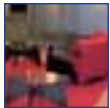
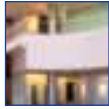
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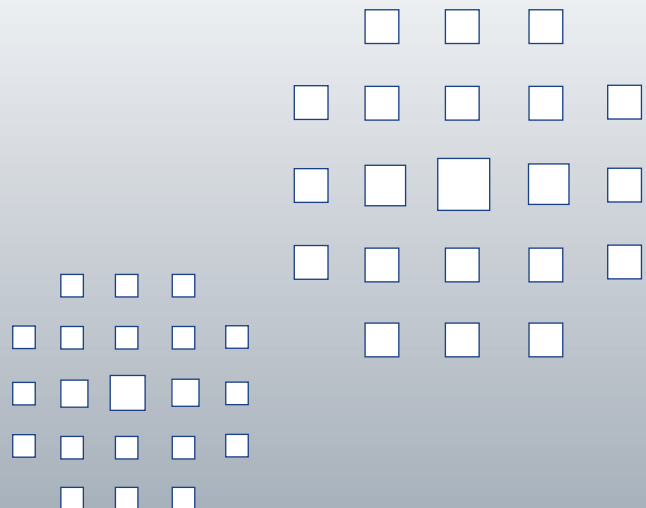
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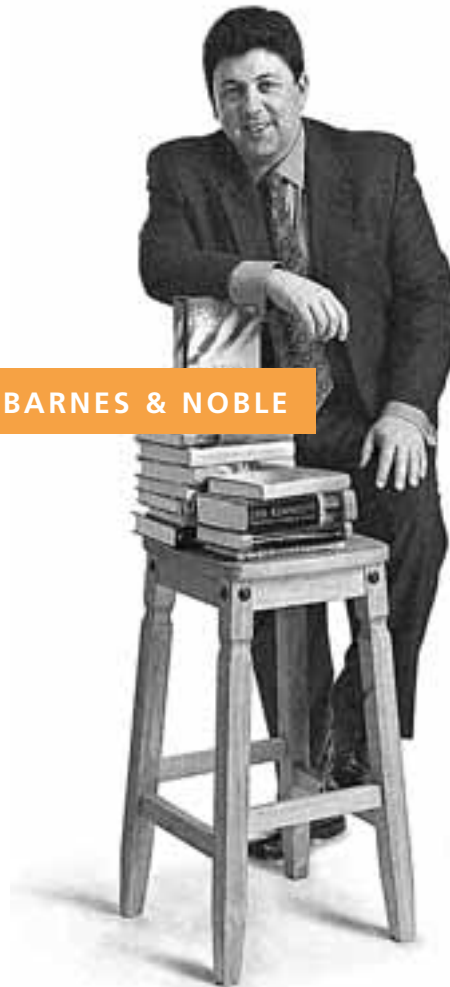
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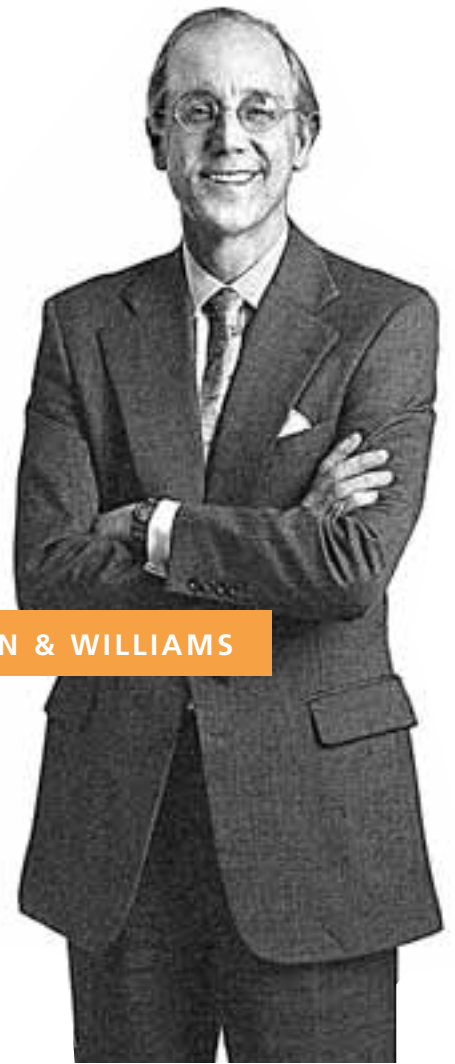
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